SUBCOMMITTEE NO. 2 Agenda

Byron Sher, Chair
Sheila Kuehl
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Thursday, March 20, 2003
Upon Adjournment of Session
Room 112

Proposed Consent Calendar

The following items are proposed for the consent calendar. No issues have been raised with the following departments, boards, or commissions.

Item	Department	Total Funds	General Fund
3110	Special Resources Programs	4,395,000	0
3460	Colorado River Board	1,067,000	192,000
3680	Department of Boating and Waterways	78,562,000	0
3720	California Coastal Commission	15,825,000	10,587,000
3820	SF Bay Conservation and Development Commission	4,240,000	3,458,000
3840	Delta Protection Commission	307,000	0

Staff Recommendation: Staff recommends the subcommittee approve the proposed consent calendar.

Action:

0540 Secretary for Resources

The Secretary for Resources has administrative responsibility for the 21 state departments, boards, commissions, and conservancies within the Resources Agency. The budget proposes total expenditures of $54.3 million ($1.3 million, General Fund), a decrease of $386.2 million from the current-year budget. This decrease is attributable to a reduction in the Bay-Delta Ecosystem Restoration Account.

Issues

Overview: Funding for Natural Resources Programs

Background: Earlier this year, Budget Committee staff prepared an analysis of the Administration's mid-year and budget-year proposed reductions. Based on data provided by the Department of Finance, committee staff identified the following:

2002-2003 Mid-Year Reductions		2003-2004 Proposed Reductions	
General Fund	$143,622,000	General Fund	$203,572,000
Special Funds	$52,045	Special Funds	$70,527

Issues: When compared to reductions proposed in other areas of the budget, the dollar amounts associated with these cuts do not appear to be drastic. In fact the Governor's budget summary estimates $4.0 billion in total spending for natural resources programs (not including expenditures for CalEPA). It is important to emphasize however that General Fund support for natural resource programs has been significantly reduced for three consecutive years. As the subcommittee reviews the 2003-2004 budget proposals, an important issue to consider is what effects these cuts will have on natural resources programs, in light of the total reductions that have been made over the past three years.

Other issues for the subcommittee to consider include the following (these numbers are taken from the Governor's Budget Summary):

- Total spending for natural resources has increased from $2.2 billion in 1999-2000, to $4.1 billion in 2003-2004
- As a percentage of the total state budget, natural resources spending has increased from 2.6 percent in 1999-2000 , to 5.3 percent in 2003-2004.
- Total General Fund spending for natural resources has increased from $926 million in 1999-2000, to $958 million in 2003-04.
- As a percentage of total General Fund spending, natural resources GF spending has decreased from 1.8 percent in 1999-2000, to 1.5 percent in 2003-2004.

If doing a cursory review of these numbers, one could argue that natural resources spending has increased over the past few years despite the recent reductions. However, the numbers over this period are misleading for various reasons. First, total natural resource spending has increased due in large part to the passage of Propositions 12 (2000), 13 (2000), 40 (2002), and 50 (2002). In total, voters have approved over $10 billion in natural resources bonds since 2000.

Second, the slight increase in General Fund spending is attributable to one area. When calculating total General Fund expenditures, the Governor's budget summary includes debt service on general obligation bonds. The 2003-2004 proposed budget includes $260 million of debt service as part of all natural resource expenditures. So if debt service is not considered, total General Fund spending for natural resources has decreased by $29 million since 1999-2000. Additionally, these figures do not account for population growth, program expansion, and/or inflation.

Another issue to consider is which natural resource departments receive General Fund dollars. For the 2003-2004 budget-year, natural resources programs will receive $958 million from the General Fund. The majority of these funds are dedicated to the following three departments: Department of Forestry and Fire Protection ($413.8 million), Department of Parks and Recreation ($97.9 million), and the Department of Water Resources ($42.6 million). In total, approximately 60 percent of all natural resources General Fund spending is dedicated to three departments.

In comparison, listed below is a 3-year General Fund budget summary of various departments who administer high priority programs established by the Legislature ($ in thousands):

Department	2001-2002	2002-2003	2003-2004
Conservation Corps	$60,227	$45,688	$36,815
Conservation	$21,222	$21,435	$5,396
Fish and Game	$67,658	$48,651	$41,167

Unfortunately the perception of natural resources programs tends to center around land acquisitions and park openings, but vital programs have been established to protect and preserve the state's natural and cultural resources. Programs such as resource assessment, conservation planning, enforcement, and regulating coastal development are all vital programs for the state. However given the current status of natural resources funding, and our reliance on bond funds, core resources programs continue to receive minimal General Fund support.

Staff Recommendation: Staff recommends the subcommittee establish funding priorities within the Resources Agency with or without assistance from the Administration. To that end, the subcommittee may wish to direct staff to identify additional cuts and/or revenue enhancements to offset spending reductions to key programs the subcommittee wishes to restore.

The subcommittee may also wish to have the Secretary respond to the issues raised in this analysis.

Action:

Other Issues

Staff Recommendation: No additional budget issues have been raised by staff. The Subcommittee may wish to consider withholding action on the Secretary's budget pending further direction from Senate leadership.

Action:

3340 California Conservation Corps

The corps provides on-the-job training and educational opportunities to California residents aged 18 through 23, with projects that conserve and enhance the state's natural resources and environment. The corps is headquartered in Sacramento and operates 13 residential base centers, 1 nonresidential service district, and more than 30 nonresidential satellite centers in urban and rural areas. The corps also develops and provides funding for eleven community conservation corps in neighborhoods with large concentrations of minority youth and high youth unemployment.

The Governor proposes to reduce the Conservation Corps' General Fund budget by $8.9 million (19.4 percent) for the 2003-2004 budget-year.

Issue

Corps Member Health Benefits

Background: As stated in the department's mission statement, corps members provide numerous services that protect and enhance the state's natural resources, environment, and residential communities. More importantly, the corps provides valuable job training and education to young men women who live in disadvantaged communities.

Since the 2001-02 fiscal-year, the corps General Fund budget has been reduced by $23.4 million. As part of the proposed General Fund reduction for the 2003-04 budget-year, the Governor proposes the following:

- Eliminate health benefits to corps members: $2.3 million
- Lay off field administrative staff: $3.2 million
- Reduce operating expenses: $3.3 million
- Close two fire centers: $1.9 million
- Eliminate local corps contracts: $846,000

Issues: The Administration's proposed General Fund reduction would result in a 25 percent total cut to the corps. Since the corps' budget is primarily funded from the General Fund, it is susceptible to reductions when the state is in a fiscal crisis. However, the Administration's proposed budget cuts undermine the corps' efforts to fulfill their mission statement. The corps provides valuable services to help protect and preserve the state's natural resources, but more importantly the corps provides opportunities to disadvantaged youth throughout the state. The success of this program can not be measured by the number of new trails or fire prevention activities; but rather the success of the corps can be defined by the number of people who join this program to help improve their lives. The corps provides alternatives to people in areas where few opportunities exist. Eliminating health benefits for the corpsmembers is not a prudent thing to do. Given the limited savings this cut provides the General Fund, the proposal is both unnecessary and insensitive.

Staff Recommendation: Staff recommends the subcommittee direct staff to identify additional General Fund reductions to backfill the Administration's proposed reductions for the corps' health benefits program.

Other issues

Staff Recommendation: No other issues have been raised with the corps budget.

Action:

3480 Department of Conservation

The Department of Conservation (DOC) protects public health and safety, ensures environmental quality, and supports the state's long-term viability in the use of California's earth resources. The Department performs numerous functions relating to agricultural and open space lands and soils; beverage container recycling; geology and seismology; and mineral, geothermal, and petroleum resources.

The budget proposes total expenditures of $541.1 million ($5.4 million, General Fund), a decrease of $13.6 million (2.5 percent) from the current-year budget.

Issues

Funding the Surface Mining and Reclamation Account (SMARA)

Background: The intent of SMARA is to assure reclamation of mined lands, encourage production and conservation of minerals, and create surface mining policies. State mining operators, under SMARA, mine everything from aggregate for building the state's infrastructure to precious metals to gypsum and borax. With department estimates of a per-capita consumption rate of 7 tons/person/year of aggregate alone—the amount of mining in the state is certain to continue to grow. Yet as population grows and urban areas sprawl into traditionally mined areas—it becomes more important to have state oversight on how to balance the competing needs of future growth, the environment and the health of the communities in which mines are placed. In order to do this, the department should thoroughly evaluate reclamation plans of mine operators and ensure that financial assurances are adequate. These roles the department plays are critical for ensuring true reclamation occurs, preventing the land from being useless in the future and repairing any environmental impact of the mining. Without sufficiently funding current SMARA activities—the state and local governments risk greater long-term costs from sites not being monitored, regulated or correctly reclaimed.

SMARA currently caps reporting fees paid by individual mining operations, (deposited in the Mine Reclamation Account) at $2000 and caps the total revenue generated by reporting fees at $1 million. With inflation adjustments, the total revenue stands currently at about $1.4 million. The result is not only a small amount of funding to effectively evaluate all operators' reports and financial assurances—but also ends up placing an unfair burden on smaller mines. Since there has been no increase in the per-mine cap in over a decade—almost all mines must pay the full amount for the department to provide the bare-bones requirements of the program.

Lead agencies play a key role in implementing SMARA at the local level. However, especially with current budget cruches, many lead agencies do not have the staff to adequately administer SMARA's requirements—like annual inspection. As a result, the State Mining and Geology Board end up having to takeover this role—requiring one additional fulltime employee to per takeover. Current board staff work for two mines in El Dorado County - Diamond Quarry (1 position) and Weber Creek Quarry (2 positions). The unfortunate result is that existing staff are diverted from their assigned work of reviewing reclamation plans to complete the requested lead agency assistance. Clearly current levels of staffing and funding are insufficient to provide an effective SMARA program.

Apart from fees, SMARA receives its core funding annually from federal royalties paid to the state from mineral leases—however, these have declined so that funding for the SMARA program has fallen disproportionately to $1.1 million.

Additional Revenues for SMARA
Senate Bill 649 (Kuehl) doubles the current cap on the program and resets the cap on the total revenue collected to an amount where the department can more effectively run the program in a way to preserve public health, look at environmental impacts of mining and meet the needs of the regulated community. The bill will raise the per mine fee to $4000 and allow for inflation adjustments. The total revenue collected for $3.5 million dollars with inflation adjustments. The Intent of SMARA is to assure reclamation of mined lands, encourage production and conservation of minerals, and create surface mining policies. State mining operators, under SMARA, mine everything from aggregate for building the state's infrastructure to precious metals to gypsum and borax. With department estimates of a per-capita consumption rate of 7 tons/person/year of aggregate alone—the amount of mining in the state is certain to continue to grow. Yet as population grows and urban areas sprawl into traditionally mined areas—it becomes more important to have state oversight on how to balance the competing needs of future growth, the environment and the health of the communities in which mines are placed. In order to do this, the department should thoroughly evaluate reclamation plans of mine operators and ensure that financial assurances are adequate. These roles the department plays are critical for ensuring true reclamation occurs, preventing the land from being useless in the future and repairing any environmental impact of the mining.

ABANDONED MINES
California is behind the times for abandoned mine cleanup and identification in comparison to other western states. States like California, who do not have coal mines, are ineligible for funding from the Federal Surface Mining Control and Reclamation Act of 1977 (SMCRA)—a program funding abandoned mine reclamation programs through fees imposed on active coal mining activities.

What states with federal SMCRA money have done
The SMCRA fund distributes money to 24 states for administration of state abandoned mine programs, including a mandatory "Stay-Out, Stay-Alive" program. Colorado's two-decade-old program has conducted its inventory-- estimating that there are 23,000 abandoned mines in the state and approximately 4,000 have been remediated. States like Montana and Utah, operating coal mines under SMCRA's jurisdiction, are permitting to remediate environmental hazards caused by the mining and put liens on the affected properties to recover the costs of the remediation. California, without coal mining, is one of the state who does not receive funding from SMCRA.

What states, like California, without SMRCA money have done
A sister state without SMCRA funding, Arizona—realizing the public and environmental safety reasons for conducting abandoned mine reclamation and appropriated money for an abandoned mine inventory—appropriated a state abandoned mines program in 1990. By 1999, Arizona had identified 1,149 mines posing significant public hazards on state lands alone. Other non-SMRCA states, Oregon and Idaho partnered up with Washington (SMCRA state) to complete priority reclamation projects and to inventory abandoned mine sites.

Nevada's Division of Environmental Protection, Bureau of Mining Regulation and Reclamation regulates exploration and mining operations in Nevada on both private and public lands. The Division issues permits to exploration and mining operations to reclaim the disturbance created to a safe and stable condition to ensure a productive post-mining land use. In addition to obtaining a reclamation permit, an operator must file a surety with the Division or federal land manager to ensure that reclamation will be completed, should an operator default on the project. **Additionally, Nevada provided funding for an**

abandoned mine safety program through an industry fee which was supported by the mining industry. Active mining operations are assessed a relatively small amount to cover costs for program administration, hazard mitigation and public education. To date, Nevada has remediated over 70% of the estimated 7,520 abandoned mine sites that it had deemed hazardous.

The intent of SB 649 is to ensure that additional fees are placed on those mining operators who work with precious metals—the same industry which created the legacy of abandoned mines. Like Nevada, California will have a reasonable, industry-funded abandoned mine program. With systematic identification by geologists at the department, proper agencies (like regional water boards) can be notified about potential hazard sources. Public members—on foot and on off-road vehicle—can be protected from falling into these hazard-traps. With a low $5 fee on each ounce of precious metal mined in the state and an average of 300,000 ounces of mined precious metals mined annually—the program (around 1.5 million) can be run at a level to ensure public safety and environmental protection.

Staff Recommendation: In light of the subcommittee's efforts in prior years to enhance the abandoned mine reclamation program, the subcommittee may wish to consider approving SB 649 as a trailer bill.

Action:

Beverage Container Recycling Fund

Background: The Beverage Container Recycling Program seeks to encourage the voluntary recycling of beverage containers by guaranteeing a minimum payment (California Redemption Value, or CRV) for each container returned to certified recycling centers. Distributors of beverages subject to the program pay the CRV (currently 2.5 cents for most containers) into the Beverage Container Recycling Fund (BCRF), which is maintained by the department. Distributors typically pass the cost of the CRV along to retailers who in turn charge the CRV to consumers. Consumers can recoup the CRV at any certified recycling center when they return their empty containers.

In addition to maintaining the BCRF, the department enforces program requirements, certifies and audits recyclers and processors, calculates recycling costs and associated fees, encourages the development of markets for recycled materials, and awards grants to public and private groups that promote recycling.

Issue: Last year the subcommittee approved a $218 million loan from the BCRF to the General Fund. The subcommittee also approved budget bill language to repay the BCRF and ensure that the recycling program was not adversely effected by the loan. The 2003-2004 budget proposes a $80 million loan to the General Fund from the BCRF, leaving the BCRF with a $31 million fund balance.

Staff Recommendation: Staff recommends the subcommittee ask the department to respond in writing to the following questions. Additionally staff requests the opportunity to evaluate the department's response prior to subcommittee action on the proposed loan.

1. What is the condition of the BCRF, including the balances in the Glass Processing Fee Account, the Plastic Processing Fee Account, and the Penalty Account? Please describe the projected condition of

the fund and each account for the next four quarters, taking into account the remaining balance that may be drawn down by the loan authorized by the Legislature in last year's budget Act.

2. How will the $80 million loan requested in the budget year affect the balance in the fund? If the subcommittee approves that loan, should it structure withdrawals in order to ensure that there is always a positive balance in the fund?

3. Public Resources Code Section 14581 requires the department, subject to the availability of funds, to spend monies in the fund for handling fees, curbside programs, grants for various activities and other related matters. Will the department be able to continue to fund these activities fully given the balance remaining on the current loan? Will the department be able to fund those activities if the Legislature approves the loan proposed for the budget year?

4. SB 23 is currently pending before the Senate. The bill proposes to reduce processing fees paid by beverage manufacturers by offsetting them from revenues in the BCRF. It also proposes increasing expenditures from the fund. How will this legislation affect expenditures in the fund?

The subcommittee may also wish to consider the following budget bill language:

Upon written approval of the Director of Finance, funds may be transferred from the Beverage Container Recycling Fund to the General Fund. The transfer made by this item is a loan to the General Fund and shall be fully repaid by June 30, 2009. This loan shall be repaid with interest at the rate earned by the Pooled Money Investment Account at the time of the transfer. The Controller shall, within 15 working days of receipt of written notification from the Director of Finance, transfer from the General Fund to the Beverage Container Recycling Fund the full amount of the loan or increments thereof as requested by the Director of Finance. It is the intent of the Legislature that the repayment is made so as to ensure that the pro-grams supported by this fund are not adversely affected by the loan.

Upon written approval of the Director of Finance, funds from this loan shall be transferred back to the Beverage Container Recycling Fund in an amount necessary to provide operating funds for support of the Beverage Container Recycling Pro-gram. Once the monthly cash-flow needs of the California Beverage Container Recycling Pro-gram are met, any excess General Fund moneys transferred to the California Beverage Container Recycling Fund during the 2002–03 fiscal year shall revert to the General Fund by June 30, 2003.

Other Issues

Staff Recommendation: No other issues have been raised with the department's budget.

Action:

3540 Department of Forestry and Fire Protection

The Department of Forestry and Fire Protection (CDF), under the policy direction of the Board of Forestry, provides fire protection services for timberlands, rangelands, and brushlands. The Department regulates timber harvesting on state or privately owned forestland and also provides a variety of resource management services for owners of forestlands, rangelands, and brushlands.

The Office of the State Fire Marshall is responsible for protecting life and property from fire through the development and application of fire prevention engineering, enforcement, and education regulations. The State Fire Marshall also trains and certifies fire service personnel throughout the state.

The budget proposes total expenditures of $603.7 million ($413.3 million, General Fund) a decrease of $52.6 million (8.0 percent) from the current-year budget.

Issues

Fire Protection Fees

Issue: The budget proposes approximately $341 million from the General Fund for support of the fire protection program. The LAO recommends the Legislature approve legislation to fund one-half of the proposed General Fund budget for fire protection on state responsibility areas by imposing fees on property owners who benefit from these services. This would result in a savings of about $170 million to the General Fund. The LAO also recommends the enactment of legislation to establish a new special fund for the deposit of the fees.

LAO Analysis: The department is responsible for fire protection on approximately one-third (31 million acres) of California's lands. The lands for which CDFFP is responsible are mostly privately owned forestlands, watersheds, and rangelands referred to as "state responsibility areas" (SRAs). There can be several different types of property owners in SRAs, such as timber operators, rangeland owners, and owners of individual residences. However, CDFFP is not responsible for the protection of structures in SRAs.

Property owners in SRAs directly benefit from CDFFP's fire protection services, as does the state's general population though the preservation of natural lands and their wildlife habitat. The LAO believes the subcommittee should approve legislation that would provide for a sharing of the costs of fire protection in SRAs between property owners and the general public. This approach is also consistent with that of several other western states which require landowners to share in the costs of fire protection services provided by the state. This approach is used in Oregon and Washington and appears to be a reasonable approach to allocating costs of a service for which the benefits and costs cannot be precisely measured and allocated.

To this end, the LAO has identified the following fee options for the Legislature to consider:

- ***A Fee Based on Wildland Fire Risk.*** This fee would be based on the department's analysis of wildland fire risk to a particular area, to reflect the fact that parcels in high risk areas are likely to receive greater benefit from CDFFP services than those parcels in areas less likely to experience wildland fire. Risk could be based on historical fire patterns and the vegetation type of particular areas.

- ***A Fee Based on the Type of Land.*** Under this fee option, fee rates would differ depending on the type of land. For example, timberland could be charged a higher fee than rangelands because it is generally more costly to suppress a timberland fire than a rangeland fire. Oregon and Washington, for example, have fee structures with differing assessment rates based on land types.

- ***Per-Acre Fees Based on Past Actual Regional Costs.*** Under this fee option, each of the 21 CDFFP fire districts would determine a per-acre assessment based on the past actual costs of fire suppression in that specific district. This fee structure is used in Oregon to partially fund state fire protection services.

- ***A Flat Per-Acre Fee***. Under this fee option, property owners would be charged a simple per-acre fee regardless of the type of land, risk, or level of improvements on the land.

The LAO believes the preferred approach for the budget year would involve two steps: (1) establishing a simple per-acre fee structure as part of the county tax collection efforts for the interim (2003-04 and 2004-05) and (2) establishing a process to develop a permanent fee structure. The fee would need to be about $6 per acre in order to fund one-half of the proposed General Fund budget for fire protection in SRAs.

A per-acre fee is the preferred approach among the options discussed because it is the most efficient fee mechanism by which the state could recover a portion of its costs of providing wildland fire protection services to landowners in the budget year. Furthermore, acreage is a reasonable proxy for benefit to landowners and, unlike many of the other options, it is broad based and would not disproportionately affect one type of landowner over another. Lastly, the state's costs to collect the fee would be reduced by using an existing collection process (county property tax assessment and collection), rather than creating an entirely new one.

The LAO also recommends a permanent fee structure be developed and established by the Board of Forestry (to be implemented beginning with 2005-06) based upon further analysis of the various fee options. Such an analysis is needed in order to further refine the fee structure by making more precise the relationship between the amount of the fee assessed and the benefit a particular landowner receives from the state's firefighting services.

Staff Recommendation: The subcommittee may wish to have the LAO report on this issue. The subcommittee may also wish to have staff to develop trailer bill language for review prior to the final hearing in May.

<u>Action:</u>

Funding Timber Harvest Plan Review and other Departmental Programs

Background: The budget proposes $23.5 million for timber harvest plan review and enforcement. Of this amount, $13.8 million is allocated to the department. Over the past few years the subcommittee has made numerous attempts to improve the overall review and enforcement of timber harvest plans. Due to limited resources, the state currently reviews approximately 12 percent of all timber harvest plans. Listed below are alternatives to increase revenues for THP review and enforcement.

Timber Harvest Plan Review
Background: Timber harvest plans are reviewed by the Department of Forestry and Fire Protection, the Department of Fish and Game, the Department of Conservation, and the Water Resources Control Board. The Department of Forestry and Fire Protection is ultimately responsible for approving THPs.

LAO Recommendation: The LAO argues that timber operators should pay fees to cover the total state agency costs to review and enforce THPs, including the cost of monitoring the impact of timber harvesting on natural resources. The Analyst believes there is a direct link between the THP review and enforcement and those who directly benefit from it through their harvesting of timber. The LAO makes a valid argument by stating that without state review and approval of THPs, businesses would not be able to harvest timber.

The Analyst identifies the following fee mechanisms for the subcommittee to consider:

1. **A Per Acre Fee**. Timber operators would pay a fee based on the number of acres proposed to be harvested in the submitted THP, without regard to the value of the proposed harvest**.** Under this option, fees could be structured with a sliding scale so that above a certain minimum number of acres, the cost per acre could be reduced. The fees would be payable to CDFFP upon submission of a THP.

2. **A Flat Fee Per THP.** Timber operators would pay a flat fee for each THP submitted to CDFFP, without regard to the value of the proposed harvest. The fees would be payable to CDFFP upon submission of a THP.

3. **A Fee for Service Basis.** A fee would be assessed based on the costs of state agencies related to reviewing a particular THP. Under this option, THPs requiring more state agency review time would be assessed a higher fee. A fee would be collected at the conclusion of the review process.

4. **A Timber Yield Fee.** Timber operators would pay a fee based on the value of timber that is harvested. Such a fee could be collected using the existing timber tax collection system in which timber owners are required to report each quarter the value of timber harvested to the State Board Of Equalization (BOE) for payment of timber yield taxes, based on the value of the harvested timber.

Prior Action: Last year the subcommittee approved trailer bill language to implement a 4 percent timber yield fee on timber operators to cover the cost of THP review and enforcement.

Timber Products Fee
Background: Senate Bill 557 (Kuehl) is structured (1) as an alternative to imposing a timber harvest review fee directly on applicants; (2) to replace the $21 million current General Fund outlay for all departmental reviews of timber harvest plans; (3) to provide funding to increase and improve the reviews

of timber harvest plans by all relevant departments; and (4) to provide a revenue stream for the life of the legislation for a variety of restoration and forestry-related projects that would otherwise not be funded.

The revenue source that the bill would generate is imposed by a user fee collected at retail. The fee would be a penny per board foot for dimensional lumber, and a penny a square foot for materials customarily sold as sheeting, such as plywoods. The Department of Forestry estimates that Californians purchase 10-11 billion board feet of lumber each year. Thus, the penny/board foot has the potential to generate $100 million annually.

Additional Issues to Consider

1. While some argue that such a fee should be imposed on industry, the fact is that such a fee would be viewed by applicants as punitive. Given the historic low prices that the industry is facing, and that many observers believe will continue indefinitely, a fee on production that is based on the yield tax will necessarily be high in order to generate sufficient funds to replace General Fund expenditures. Such a surcharge will likely be especially harmful to smaller producers. Moreover, such a fee will not generate funds to improve the agency reviews of timber harvest plans or funds for restoration activities. Such a fee could potential create the adverse environmental consequence of driving some timberland owners to sell their lands for some other purpose. While it is important to improve the environmental performance of the industry, it is equally important to maintain timberlands as timberlands. Timberlands converted to housing or to vineyards provide very little habitat or watershed values.

2. It is highly unlikely that new General Fund dollars will be available any time soon to improve the performance of departments that review timber harvest plans. There is no dispute that improvement is necessary in order to increase the rate of review from a paltry 10-15% to something much more significant. The Department of Fish and Game, the regional water boards, and the Department of Conservation all need to improve their performance. SB 557 creates a priority for funding these improvements and it represents the only realistic way to achieve that objective.

3. There is no dispute that forestry practices have had a significant effect on California's environment, and that insufficient mitigation has been required. With the funds not required for timber harvest plan review, this bill proposes to spend money on projects directly connected to mitigating the actions of the industry. For example, a cost-share program with counties could decommission or maintain roads which are the single largest cause of sedimentation into North Coast rivers and streams, and the reason all these streams are listed as impaired under the Clean Water Act. Grants could also fund watershed groups who are working to protect water quality or habitat in timber country, and could fund the restoration of wild salmon streams.

The bill would enable California to purchase conservation easements from cooperating landowners that would ensure that timberlands remain as timberland, and that logging practices improve so that no additional water quality or wildlife threats are generated. Landowners have clamored for years for this new approach, and it is a reasonable request if it is coupled with improved logging practices.

What is at stake is the conservation of public trust resources, and a public source of funding is clearly appropriate. This bill is designed to contrast with the proposals to assess fees against producers, but at the same time, it is designed to leverage much better environmental performance than can be provided solely through a regulatory approach.

Prior Action: The subcommittee has not considered this proposal in prior years.

Staff Recommendation: Prior to the subcommittee's final hearing, staff recommends at least one of these proposals be approved as trailer bill language.

Action:

Funding the Computer Aided Dispatch System

Background: In the 2001-02 Budget-Act, the Legislature approved $10.4 million (General Fund) to the department for the development and implementation of the CAD system. The department originally estimated this project would be implemented over a 5-year period. The budget proposes $2.6 million from the State Emergency Telephone Number (911) Account to continue the implementation of the CAD system.

Issue: The LAO has recommended that the Legislature delete funding for the Computer Aided Dispatch System (CAD) because funding the proposal from the 911 account is inconsistent with current law and changes the nature of the 911 surcharge.

Department's Response: It is important to note that if a 9-1-1 call involves fire or a medical response, the call is routed to a CDF emergency command center. According to the department's staff, CDF has twenty-one, 24-hours 9-1-1 Emergency Command Centers throughout the state.

The department also states the following:

- All ECCs are Public Safety Answering Point (PSAP) because CDF is responsible for protecting over 31 million acres of California's privately-owned wildlands.
- CDF dispatched 314,849 emergency calls in 2002
- The 5-year average is 285,726 calls a year
- 35 of California's 58 counties have some kind of contractual agreement for services with CDF
- Contracts include appropriate personnel and operations costs for additional staffing and equipment

Staff Recommendation: Staff recommends the subcommittee approve the CAD funding proposal. However, in the likelihood that the Administration's 911 proposals are not approved the subcommittee may wish to consider funding the CAD project from an additional revenue source.

Action:

Non-industrial Timber Management Plans (NTMPs)

Background: The provisions of Chapter 1290, Statutes of 1989 (SB 1566 – Keene) authorize any timberland owners with less than 2500 acres to file a nonindustrial timber management plan (NTMP) with CDF in lieu of a regular 3-year timber harvest plan (THP). NTMPs are on unlimited duration and only available to landowners who intend to manage their timberland on a "sustained yield" basis and not utilize "even age" logging methods (clearcutting). If CDF determines that a landowner is not following these management objectives, or there are persistent violations of the forest practice rules, Chapter 1290 requires the that the NTMP be cancelled and any further timber operations under the plan be terminated.

Section 14 of Chapter 1290 (an uncodified section of law) required CDF to submit a report to the Governor and Legislature on or before January 1, 1998, evaluating whether the objectives of uneven-age management and sustained yield are being met for "each parcel or group of contiguous parcels for which an NTMP had been previously approved since 1989. Section 14 was included in Chapter 1290 as a compromise in lieu of inserting a specific "sunset" provision to SB 1566 when it was originally considered by the Legislature. To date, this report has not been submitted to the Legislature.

Staff Recommendation: The subcommittee may wish to have the department report on the status of the NTMP progress report. The subcommittee may also wish to consider budget bill language prohibiting NTMPs pending delivery of the report to the Legislature.

Action:

Informational Item

Forest Resources Improvement Fund (FRIF)/State Forest Management

Background: Under current law, the Forest Resources Improvement Fund is the repository for all net revenues derived by CDF from the sale of timber harvested in the Jackson State Demonstration Forest and other state forests managed by the department. Existing law makes FRIF available to support grants and loans to nonindustrial timberland owners through the California Forest Improvement Program (CFIP), and to pay for operation of the CDF forest nursery system, forest pest research and other activities, like the Forest and Rangeland Assessment Program (FRAP). In recent years, however, the department has barred from selling any timber from the Jackson State Forest due to litigation. Prior to enactment of the California Forest Improvement Act in 1978, all state forest revenues were deposited into the General Fund.

Staff Recommendation: The subcommittee may wish to ask the department questions regarding this item.

Other issues

Staff Recommendation: No other issues have been raised with the department's budget proposal.

<u>Action:</u>

3560 State Lands Commission

The Commission is comprised of the State Controller, the Lieutenant Governor, and the Director of Finance. It is responsible for the management of lands the state has received from the federal government. These lands total more than four million acres and include tide and submerged lands, swamp and overflow lands, the beds of navigable waterways, and vacant state school lands. The Commission generates significant state revenue from the development and extraction of oil, gas, geothermal energy, and other minerals on state lands. Most of this revenue is from oil production on state tidal and submerged lands along the coast of southern California. The commission also administers regulations and policies for operation of marine facilities in the state to protect against oil spills.

Issue

Tidelands Oil Revenues – Impact on Salmon and Steelhead Restoration

Background: Existing law (SB 271) requires tidelands oil revenues to be annually allocated for support of salmon and steelhead restoration projects and other natural resource purposes. These allocations "sunset" on January 1, 2007, pursuant to SB 271. Last year, the Legislature denied the Governor's Budget proposal to repeal the existing but suspended the tidelands revenue allocations on a one-year basis. The Legislature also back-filled the $8 million that would have otherwise been allocated for salmon and steelhead projects with an equivalent amount of Prop. 40 bond funds. Instead, the budget proposes to transfer $18.8 million of tidelands oil revenues that would have otherwise been allocated pursuant to SB 271.

Staff Recommendation: The subcommittee may wish to ask the commission the following question:

- Does the commission have updated revenue estimates for how much tidelands oil revenue would be deposited into the General Fund if the Legislature approves the early "sunset" of the allocations established by SB 271?

Action:

3600 Department of Fish and Game

The Department of Fish and Game (DFG) administers programs and enforces laws pertaining to the fish and wildlife resources of the state. The Fish and Game Commission sets policies to guide the department in its activities and regulates the sport taking of fish and game. The DFG currently manages approximately 160 ecological reserves, wildlife management areas, habitat conservation areas, and interior and coastal wetlands throughout the state.

The budget proposes total expenditures of $275.8 million ($41.2 million General Fund), an increase of $4.5 million (1.7 percent) from the current-year budget. The proposed spending increase is attributable to Federal Trust Fund and reimbursement authority increases.

Issues

Enforcement Positions

Issue: The Administration has proposed a total reduction of 50 vacant positions and $4.5 million ($1.64 million in 2002-03, and $2.9 million in 2003-04) for enforcement (Fish and Game Wardens) As part of the first extraordinary session, the Senate approved the department's proposal to reduce funding for vacant enforcement positions in the current fiscal-year, however the Senate submitted a letter to the journal stating intent to maintain the positions through the fiscal-year.

Fish and Game Wardens perform numerous functions for the department, including the protection of California's public trust resources. Enforcement at the department has been historically been understaffed and underfunded. In light of this problem, the Legislature has approved 36 additional warden positions since 1998 to address chronic underfunding of enforcement, monitoring, and environmental review at the department.

The primary concern with the Administration's proposal is that the number of enforcement positions will decrease below 372 wardens, which was the number or wardens prior to the Legislature's augmentations to the program. Eliminating these positions would hinder any progress made by Department to increase enforcement activities, and would undermine the Legislature's intent to increase funding for enforcement.

An important issue to consider is this; the department has not been able to recruit and/or hire new wardens because of factor outside their control. Fish and Game Wardens make significantly less money when compared to other peace officers. The issue regarding pay cannot be addressed by the Legislature. The Department of Personnel Administration negotiates these contracts through collective bargaining. The subcommittee does not have the authority to augment warden's salaries.

Staff Recommendation: The Subcommittee may wish to consider budget bill language to exempt the department from the 6-month vacancy requirement and the state hiring freeze. This would enable to the department to maintain the vacant warden positions that would otherwise be eliminated, and allow the department to fill positions that are currently vacant due to the hiring freeze.

Action:

Other Issues

Staff Recommendation: The subcommittee may wish to have the department respond to the following questions either at the hearing or through a written response.

License and Fee Increases

- What other DFG permit and license fees are fixed by statute and have not been adjusted for inflation?
- Has the department's costs for monitoring and enforcement of the programs financed by these fees also increased with inflation?
- How is DFG going to cover its permit review costs, as well as monitor and enforce compliance with the recently-adopted regulations pertaining to transgenic species? Will the fees be adequate to cover annual inspections of facilities issued these permits to determine whether environmental safeguards are being followed?

Northern Pike in Lake Davis

- Does the department have any real plan for successfully eradicating this exotic species or is DFG merely attempting to contain it in Lake Davis, given the increasing number of northern pike being captured and killed by department staff

- What would be the more effective method of eliminating this population? Should Lake Davis be drained or poisoned against, as was done in 1997?

Coho Salmon Recovery Project

- What is the legal basis for the department implementing a recovery plan for the coho salmon when the listing petitioners did not concur with this alternative after listing was determined to be warranted?

- How is the department paying for the costs of this recovery planning effort?

- How can the public be assured that further losses to coho salmon populations are not occurring in view of the failure of the commission to adopt any new measures

Tidelands Oil Revenues

- How much total bond money and federal funds is DFG requesting for salmon and steelhead trout restoration projects authorized by PRC Section 6217.1?

3790 Department of Parks and Recreation

The Department of Parks and Recreation (DPR) acquires, develops, preserves, interprets, and manages the natural, cultural, and recreational resources in the state park system and in the State Vehicular Recreation Area and Trail System (SVRATS). In addition, the department administers state and federal grants to cities, counties, and special districts that help provide parks and open-space areas throughout the state. The state park system consists of 273 units, 31 of which are administered by local and regional park agencies. The system contains approximately 1.4 million acres of land, with 285 miles of coastline and 822 miles of lake, reservoir, and river frontage.

The budget proposes total expenditures of $912.0 million, ($97.9 million, General Fund), a decrease of $91.7 million (9.1 percent) from the current-year budget.

Issues

Proposition 40: Cultural and Historical Grant Funds

Background: The budget proposes $98 million from Proposition 40 for a new historical and cultural grants program.

Issue. The LAO argues that the budget proposal for the cultural and historical grant program lacks key information necessary to evaluate this initiative. The Analyst states that the proposal does not set out criteria or priorities for awarding grants, making it difficult for the Legislature to assess what the program might achieve in terms of protection and restoration of cultural and historical resources.

Assembly Bill 716: The Legislature passed AB 716 (Firebaugh) to establish a cultural and historical grant program. Since Proposition 40 did not specify nor establish a process for administering these funds, AB 716 was intended to create a structure and process for awarding historical and cultural grants and loans. AB 716 also establishes the Cultural and Historical Endowment to administer these funds and include participation from stakeholders and the public to identify priorities.

AB 716 authorized $128 million to the endowment to begin the cultural and historical grant program. However, the Governor vetoed the appropriation for the following reasons:

1. Given the state's fiscal condition, now is not the time to establish a new, permanent bureaucratic entity with broad new duties.

2. The duties of the Endowment as proposed in this measure extend well beyond competitive grant-making responsibilities and would create significant general fund cost pressure.

3. The proposed endowment appears to be "significantly redundant and unnecessary given the duties and expertise of the Department of Parks and Recreation, the Office of Historic Preservation (OHP) and the State Historic Resources Commission." The veto massage further states: "In particular, by directing the Endowment to conduct competitive grant-making for historical preservation purposes, the bill undermines the successful efforts of the OHP and the Commission in disbursing Proposition 12 historical preservation monies. Failure to take advantage of such expertise will lead to unnecessary costs and delays in implementation. of competitive grants."

Staff Recommendation: Staff recommends the subcommittee deny the all components of the Administration's Cultural and Historical grant program. Additionally the subcommittee may wish to consider allocating $98 million from Proposition 40 to the Cultural and Historical Endowment established in AB 716.

Action:

Harbors and Watercraft Fund Transfer

Issue: The budget proposes a $26 million transfer from the Harbors and Watercraft fund to the State Parks and Recreation Fund. Traditionally the Legislature has approved an $11 million transfer to the Parks and Recreation fund on an annual basis. However the current-year budget authorizes a $26 million transfer to offset general fund reductions to the department. The Legislature approved the additional $15 million transfer with budget bill language requiring the department to repay the loan.

The departments states that the additional transfer from the Harbors and Watercraft fund reflects the costs associated with operating state reservoirs and boating facilities.

Staff Recommendation: Staff recommends the subcommittee approve the $26 million transfer. Additionally, the subcommittee may wish to consider the following budget bill language:

Of the transfer specified in this item, $15,000,000 is a loan to the State Parks and Recreation Fund. It is the intent of the Legislature that repayment of this loan be made to the Harbors and Watercraft Revolving Fund no later than June 30, 2007, so as to ensure that the programs supported by this fund are not adversely affected.

Action: